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IMPLEMENTATION COMPLETION REPORT
(SCL-43850)

ON A

LOAN

IN THE AMOUNT OF US$48 MILLION

TO THE

REPUBLIC OF KOREA

FOR A

FINANCIAL AND CORPORATE RESTRUCTURING ASSISTANCE PROJECT

January 6, 2003

CURRENCY EQUIVALENTS

(Exchange Rate Effective 12/01/2002)

Currency Unit	=	Won (KRW)
KRW 1	=	US$ 0.0008
US$ 1	=	KRW 1207.55

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activity
CAS	Country Assistance Strategy
CPE	Continuing Professional Education
CRCC	Corporate Restructuring Coordination Committee
FSC	Financial Supervisory Commission
FSS	Financial Supervisory Service
GDMT	Government Debt Management Team
HR	Human Resources
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IMF	International Monetary Fund
KFTC	Korea Fair Trade Commission
KICPA	The Korean Institute of Certified Public Accountants
M&A	Merger and Acquisition
MOFE	Ministry of Finance and Economy
MOJ	Ministry of Justice
OECD	Organisation for Economic Cooperation and Development
PIU	Project Implementation Unit
PSD	Private Sector Development
SALMS	Sovereign Asset Liability Management System
TA	Technical Assistance
WB	World Bank

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REPUBLIC OF KOREA
FINANCIAL & CORPORATE RESTRUCTURING ASSISTANCE

CONTENTS

Project ID: P056796	*Project Name.* KR-FIN & CORP RES. AS
Team Leader. William Peter Mako	*TL Unit* EASPS
ICR Type: Core ICR	*Report Date: January 6, 2003*

1. Project Data

Name:	KR-FIN. & CORP. RES. AS	*L/C/TF Number:*	SCL-43850
Country/Department:	REPUBLIC OF KOREA	*Region*	East Asia and Pacific Region
Sector/subsector	Other industry (80%); Central government administration (10%); Law and justice (5%), Capital markets (5%)		

KEY DATES

			Original	*Revised/Actual*
PCD: 05/29/1998		*Effective:*	09/01/1998	10/01/1998
Appraisal: 06/25/1998		*MTR.*	07/01/2001	
Approval: 08/06/1998		*Closing:*	06/30/2002	06/30/2002

Borrower/Implementing Agency. Ministry of Finance and Economy/Ministry of Finance and Economy; Ministry of Finance and Economy/Financial Supervisory Commission, Ministry of Finance and Economy/Ministry of Justice; Ministry of Finance and Economy/Korea Fair Trade Commission

Other Partners:

STAFF	Current	At Appraisal
Vice President:	Jemal-ud-din Kassum	Jean-Michel Severino
Country Manager:	Jeffrey S. Gutman	M G Sri-Ram Aiyer
Sector Manager:	Homi Kharas	Hoon Mok Chung
Team Leader at ICR:	William Mako	Klaus Lorch
ICR Primary Author:	William Mako	

2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome S

Sustainability: HL

Institutional Development Impact. H

Bank Performance. S

Borrower Performance: S

	QAG (if available)	ICR
Quality at Entry.		S
Project at Risk at Any Time.		

3. Assessment of Development Objective and Design, and of Quality at Entry

3 1 Original Objective:

Context. At the time this Project was conceived, in early 1998, Korea's financial and corporate sectors were in crisis. Fourteen of Korea's 27 commercial banks had inadequate capital and 2 were technically insolvent, leading to their nationalization in January 1997. Among nonbank financial institutions, Korea's merchant banks were in the most immediate distress as a result of large loans to troubled business groups (*chaebols*) and losses from other investments. During 1997, 13 *chaebols* with cumulative debt of KRW 28.4 trillion had entered court-supervised insolvency. Local equity analysts estimated that another eighteen *chaebols* were at medium or high risk of insolvency. Although a severe international liquidity squeeze triggered the crisis, structural weaknesses were the fundamental problem. Korea's financial sector had little commercial orientation and a limited ability to assess risk. Prudential controls were weak and supervision fragmented, leading to a decision early in the crisis to create a Financial Supervisory Commission (FSC) and Financial Supervisory Service (FSS) to oversee the entire financial sector. The FSC/FSS was obliged, however, to get up and running in the midst of a crisis. Within the corporate sector, ill-advised debt-financed over-investment in low-growth or loss-making businesses had been facilitated by weaknesses in accounting, auditing, and financial disclosure; weak insider-dominated corporate governance; and an opaque system of cross debt guarantees, cross shareholdings, and non-commercial related party transactions within *chaebols* that served to prop up loss-making businesses. Thus, Korea needed both to respond to immediate requirements for crisis resolution and to longer-term requirements for structural reform.

The Project was designed to support measures to achieve the following results:

1. Reduce the likelihood of a systemic failure in the banking and corporate sectors through strengthening the capacity for monitoring and managing financial risks in these sectors, deepening structural reforms, and improving debt management;
2. Improve the financial soundness of banks and corporations through a strategy that combined improvement of financial sector regulation, stronger securities markets, creditor-led workouts of distressed corporations, and capacity-building at banks and corporations to undertake needed restructuring; and
3. Deepen a broad process of change in government institutions, banks, and corporations toward less government involvement in business, enhanced transparency, more focus on financial results, more openness to global competition and investment through the catalytic role of international advisors, and strengthening of new regulatory institutions (e.g., the FSC) as well as self-regulatory market institutions.

These Project objectives were closely attuned both to the Government's program and to World Bank/IMF recommendations for short-term crisis resolution and medium-term structural reform.

3.2 Revised Objective:

Not applicable

3 3 Original Components:

Financial Sector Supervision and Crisis Management (US$7.3 million)

The supervision capacity-building effort was intended to support the development of FSC's strategies, policies, procedures, and capabilities to adopt and enforce prudential regulations and implement supervisory practices in line with accepted international practices. This activity responded both to pre-crisis weakness in financial supervision and immediate needs to merge several existing regulatory bodies into the new FSC/FSS in the midst of a crisis.

The support for crisis management was intended to help the FSC develop strategies and processes, design an organizational structure, and upgrade staff capabilities to manage and resolve financial institution distress. The two main activities -- support for development and implementation of resolution strategies and development of data and methodologies to support resolution -- were immediately relevant to efforts to resolve distress at a number of financial institutions.

Securities Market Development (US$1.44 million)
This had three sub-components: (i) assistance on the securities industry, market regulation, and infrastructure was designed to reform the regulatory framework for self-regulatory organizations (SROs) and market participants, rationalize market architecture, and assess bond market demand and development issues; (ii) facilitate development of the Government's bond management policy and primary and secondary markets for Government bonds; and (iii) support greater transparency and professionalism in accounting and auditing. By supporting improved financial disclosure and the development of alternatives to bank financing, these activities addressed underlying structural issues.

Debt Management Improvement (US$2.0 million)
This component was designed to address technical issues in the management of sovereign debt, e.g., currency, interest, liquidity, refinancing, and other risk; hedging; and back office systems. This component responded to the Government's need to manage additional debt issued to support financial sector recapitalization and longer-term enhancements in debt management to enhance financial stability.

Corporate Restructuring (US$30.5 million)
This component was to finance the deployment of advisory consortia to Korea's largest banks· Hanvit, Chohung, Korea First, Seoul, and Korea Exchange. Each consortium was to include international and Korean experts in corporate finance and turnaround, insolvency, accounting, investment banking, and law. Each consortium was to build capacity and provide the following support to creditor-led corporate restructuring efforts: business/financial diagnostics and restructuring recommendations for distressed *chaebol* businesses; review of restructuring proposals; advice to the creditors' arbitration committee; and regular progress reports to the FSC. Thus, this component responded both to widespread corporate distress and a lack of corporate restructuring experience within Korea's financial sector.

Corporate Legal/Regulatory Reform (US$1.5 million)
This component supported both ongoing insolvency reform and reform of corporate governance. While creditors enjoyed reasonably strong protections going into the crisis, Korea's insolvency system was not prepared to handle a lot of large insolvency cases in an efficient manner and was not well-suited for the efficient rehabilitation of distressed-but-viable corporations. Assistance was intended both to support reform of Korean insolvency law and training for judges and other insolvency professionals. Corporate governance assistance was intended to strengthen the authority and responsibility of corporate boards and to enhance financial disclosure and monitoring by market participants. Thus, this component responded both to short-term needs for restructuring distressed corporations and to longer-term structural reforms aimed at preventing a recurrence of systemic corporate distress and facilitating the development of alternative means for corporations to meet their needs for capital.

Competition Policy (US$0.42 million)
This component aimed at transferring knowledge on international best practices from OECD countries in order to strengthen the ability of the Korea Fair Trade Commission (KFTC) to apply the Fair Trade Act. Thus, this component responded both to poor corporate governance practices that contributed to the corporate sector's vulnerability to systemic distress and to the Government's commitment under the

Structural Adjustment Loan program to strengthen the administration and enforcement of competition policy.

Project Implementation Support (US$0.20 million)
Contingencies (US$4.64 million)

3 4 Revised Components:
Component; Cost; Rating
FINANCIAL SECTOR SUPERVISION AND CRISIS MANAGEMENT; $5,747,090; S
SECURITIES MARKETS DEVELOPMENT; $491,128; S
DEBT MANAGEMENT IMPROVEMENT; $303,505; S
CORPORATE RESTRUCTURING; $17,791,388; S
CORPORATE LEGAL/REGULATORY REFORM; $1,383,909; S
COMPETITION POLICY; $317,463.00; HS

Given the magnitude of Korea's corporate and financial sector distress and uncertainties about how long it would take relatively inexperienced actors -- such as the FSC/FSS and the workout departments at Lead Banks -- to develop the in-house capacity to resolve the crisis while pursuing longer-term reforms, this Project was generously funded at US$48.0 million. In the end, only about US$26 million was needed and used. This reflects both efficient teaming of international and domestic experts and rapid learning by implementing agencies. There was no change in Project components or objectives, only a reduction in the cost of Project implementation.

3 5 Quality at Entry:
Because Korea had earlier graduated from World Bank programs, no Country Assistance Strategy (CAS) was in place when the crisis began. As a result of the involvement of World Bank staff in the December 1997 Emergency Restructuring Loan, the first Structural Adjustment Loan negotiated in March 1998, and analytical and advisory activity (AAA) support to the FSC in early 1998, the Project team was closely familiar both with the objective requirements for responding to this crisis and with the Government's program. By the time of the first identification mission for this Project, both sides were already in substantial agreement over what needed to be done and how best to proceed.

4. Achievement of Objective and Outputs

4 1 Outcome/achievement of objective·
The Project facilitated the attainment of key goals: (i) reducing the likelihood of systemic failure in the corporate and banking sectors; (ii) improving the financial soundness of Korea's banks and corporations; and (iii) promoting increased transparency, competitiveness, and reliance on market mechanisms in Korea's corporate and financial sectors. Banks that were still under-capitalized as of mid-1998 were subjected to prompt corrective action or some form of rehabilitation, e.g., downsizing, merger, or recapitalization with public and/or private funds. Median corporate debt/equity had been reduced below 200% by end-1999, although one-quarter of Korea's companies remain over-leveraged. Workout agreements for 15 *chaebol* affiliates had been negotiated by mid-1999 and workout of Daewoo affiliates had basically been agreed by end-1999. Steady progress was made on financial regulation and supervision, development of self-regulatory organizations for key market participants, and some insolvency reforms A business law amendment covering minority shareholder protections and enhanced corporate boards was enacted in July 2001.

4 2 Outputs by components

Financial Sector Supervision and Crisis Management. Almost all consultant recommendations on FSS organization, staffing, personnel policy, and budgeting were accepted. Agreed actions to bring prudential regulations and supervisory practices into line with international best practices have been implemented Consultant reviews of proposed strategies and financial projections for distressed banks facilitated FSC/FSS efforts at stabilization and resolution.

Securities Market Development. The component produced consultant studies on securities market architecture, self-regulation, and regulation; seminars and studies on a government bond market; and advice on continuing professional education and ethical standards for accountants.

Debt Management Improvement. Consultants provided the expertise necessary for development of the Sovereign Asset Liability Management System (SALMS) that now enables the MOFE Treasury Bureau to manage and assess government debt in order to minimize costs and risks.

Corporate Restructuring. Consultants provided immediate assistance to Lead Bank corporate workout units in assessing corporate restructuring proposals and longer-lasting assistance in corporate restructuring issues, methodologies, and techniques. Through frequent seminars and on-site training in corporate restructuring, the advisors also helped the Lead Banks in such areas as credit evaluation and monitoring systems for early warning of corporate distress.

Corporate Legal/Regulatory Reform. Corporate governance assistance included overseas study and a comparative international analyses of corporate governance standards and practices, which led to legislation enacted in July 2001 to raise minority shareholder protections and strengthen corporate boards. Insolvency reform assistance, including overseas study and comparative analyses of other insolvency regimes, is influencing a Ministry of Justice working group tasked with preparing insolvency reform legislation for the National Assembly.

Competition Policy. Information-sharing on OECD best practice, training, and overseas internships have supported KFTC's campaign to eliminate most cross-debt guarantees and improper related party transactions within *chaebols*; abolish twenty cartels, under 1999 legislation; and improve standards and procedures for reviews of cartels and merger and acquisition (M&A) transactions

4 3 Net Present Value/Economic rate of return

Not applicable

4 4 Financial rate of return

Not applicable

4.5 Institutional development impact.

The Project's institutional development impact has been high. The FSC/FSS has been melded into an effective regulator and supervisor, whose prudential regulations, supervisory procedures and staff, institutional support, and institutional memory in dealing with financial sector distress have vastly improved since 1998. Between 1997 and 2001, stock market capitalization and volume of trading increased 261% and 233% respectively. Within MOFE, a new information system now enables the Treasury Bureau to do a better job managing the costs and risks of government debt. Professional education and ethics for the accounting/auditing profession has been upgraded; additional entities are subject to external audit; and more corporate boards now have audit committees. Corporate governance standards and practices have improved, especially in terms of the appointment of independent corporate directors and protections for minority shareholders. The KFTC is vigorously implementing fair trade legislation and -- by virtue of its experience in Korea, continuing close collaboration with OECD, and Knowledge Partnership with the World Bank -- is in a position to disseminate its competition policy know-how to developing and transition economies around the world.

5. Major Factors Affecting Implementation and Outcome

5 1 Factors outside the control of government or implementing agency:
Commitments by the International Monetary Fund, World Bank, and other international finance agencies of up to $58 billion provided both substantial direct financial support and an expression of confidence to global capital markets in Korea's approach to resolving its corporate/financial sector crisis. In addition, U.S. Federal Reserve policies during 1998-99 provided a supportive international economic environment for the Korean Government to pursue corporate/financial sector restructuring and reform.

While the Government could initiate many measures, the National Assembly had the final say on important matters, e.g., the ceiling on public funds for financial sector support/recapitalization; and insolvency legislation. Going into the crisis, Korea's legal framework provided reasonably strong protections for creditors which facilitated progress on corporate restructuring.

Especially because it was seeking to end a long tradition of intervention in the economy, the Government could not directly force banks and corporations to pursue any particular restructuring action. To emphasize this, the FSC encouraged banks and nonbank financial institutions to agree among themselves on a binding set of corporate restructuring principles and procedures, including arbitration of inter-creditor disputes by a Corporate Restructuring Coordination Committee (CRCC).

5.2 Factors generally subject to government control:
The Project benefitted from the Government's sound macroeconomic policies and generally strong commitment to corporate and financial sector restructuring and reform. The first chairman and key staff at the FSC/FSS and key staff at MOFE, MOJ, and KFTC were highly supportive of Project goals and timely pursuit of these goals.

5 3 Factors generally subject to implementing agency control.
Project implementation staff at MOFE and FSC were closely involved in Project preparation and implementation; quickly adopted World Bank procedures for selection of consultants and project financial management; carefully monitored results and supported project supervision; and were amenable to exchange of views with Bank staff on policy and technical issues relating to the Project.

5 4 Costs and financing·
As shown in Annex 2, overall disbursements by component were about 60% of available funding. In absolute terms, the Corporate Restructuring component provided the greatest savings -- US$17.8 million actual versus US$30.5 million available. As noted above (section 3.4), this reflects generous funding to offset uncertainties at the start of the Project as well as efficient teaming and rapid learning by implementing agencies, which substantially reduced actual requirements for Project financing.

6. Sustainability

6 1 Rationale for sustainability rating:
The FSC/FSS has become an effective regulator and supervisor, whose prudential regulations, supervisory procedures and staff, institutional support, and experience have vastly improved since 1998. Within MOFE, a new information system has improved the Treasury Bureau's ability to manage government debt. Professional education and ethics for the accounting/auditing profession has been upgraded; additional entities are subject to external audit; and more corporate boards now have audit committees. Corporate governance has improved, especially in terms of the appointment of independent corporate directors and protections for minority shareholders. The KFTC has become a vigorous advocate and regulator of fair competition.

6 2 Transition arrangement to regular operations

The short-term issues relating to the 1997 financial crisis have largely been resolved As for longer-term reforms, Project activities to support these have already been integrated into the regular operation of the FSS/FSC, MOFE, Korea Institute of Certified Public Accountants, and KFTC. The major outstanding item is completion of work on insolvency reform and submission of reform legislation to the National Assembly.

World Bank staff have remained in regular semi-annual contact with implementing agency counterparts as a result of the World Bank's involvement in the Financial Sector Assessment Program (FSAP) and the IMF's post-program reviews and Article IV consultations. It is anticipated that continued World Bank involvement in such missions will provide a regular opportunity for general updates on financial supervision, securities markets, and corporate governance. Bank staff will take care to follow up on progress on the development of insolvency reform legislation.

7. Bank and Borrower Performance

Bank

7.1 Lending.

Project objectives and design responded to short-term requirements for supporting establishment of the FSS/FSC and resolving corporate/financial sector distress as well as to longer-term requirements for supporting reforms in financial disclosure, corporate governance, insolvency, and competition policy and necessary developments in securities markets infrastructure. Project objectives were consistent both with the Government's objectives and with the World Bank's assessment of requirements for supporting crisis resolution and corporate/financial sector reform. The Project's emphasis on blending international and local expertise facilitated the introduction of international best practices, capacity-building, and efficient implementation of the Project. More particularly, the following elements were highly satisfactory: speed of preparation and speed of implementation, especially given the size of the Loan; knowledge transfer and the quality of advice and technical assistance; depth in terms of supporting the Government's institutional change agenda, rather than just providing technical solutions; coverage in terms of the breadth and debt of Project components; and efficiency in terms of the use of regular Bank budget funding relative to Loan disbursements.

7 2 Supervision·

Bank staff were closely involved with implementing agencies in providing ongoing technical advice; advising the counterparts on project planning and on consultant selection procedures; and monitoring Project deliverables. In some cases, especially with the corporate restructuring component, Bank rules on consultant selection caused some delays in deploying international advisors to assist Lead Banks with resolution of acute corporate distress. Turnover in Bank staff caused some delays in getting no-objections later in the Project, but supervision during the critical early phases of the Project was strong

7 3 Overall Bank performance:

The Bank's lending performance was highly satisfactory for some components and satisfactory overall Supervision was satisfactory. The Bank's overall performance was satisfactory.

Borrower

7 4 Preparation.

The Government's preparation was satisfactory. During preparation, there was close cooperation between the Government and the Bank. The MOFE, FSC/FSS, MOJ, and KFTC were actively engaged and ensured that the Project's objectives and design supported the Government's program for crisis resolution and corporate/financial sector reform.

7.5 Government implementation performance:
Implementation performance by both Project Implementation Units (PIUs), at the MOFE and FSC, were satisfactory.

7 6 Implementing Agency:
Implementing Agencies showed good ownership of the Project. This was a large and diverse project Implementation Agency performance was highly satisfactory for some components, especially competition policy, and satisfactory overall.

7 7 Overall Borrower performance:
The Borrower's overall performance was satisfactory.

8. Lessons Learned

This Project provided a unique perspective on Korea's response to its corporate/financial sector crisis. Thus, comments here include lessons on crisis response as well as on design and implementation of similar projects.

Responses to corporate/financial sector crisis

- A credible threat of foreclosure/bankruptcy is needed to elicit debtor cooperation with court-supervised rehabilitations or out of court workouts. Korea entered the crisis with reasonably strong protections for creditors. While progress on corporate operational restructuring was slower than had been hoped for, the corporate workouts agreed during 1998-99 did impose significant losses on controlling shareholders and managements and thus addressed important moral hazard concerns.
- While an efficient framework for out of court workouts is necessary in a systemic crisis and can financially stabilize distressed companies and resolve some instances of corporate distress, permanent solutions may require a court-supervised process. An efficient framework for out of court workouts is needed to avoid saturation of the courts. But final allocations of losses and risk -- between creditors over (i) treatment of secured vs. unsecured debt, (ii) provisions of new credits, and (iii) the sale or transfer of converted corporate equity and restructured credits; and between creditor-shareholders and public shareholders over the allocation of equity restructuring losses -- are difficult and time-consuming to resolve in an out of court process. Delays may impose additional losses on the company subject to workout. Ultimately, resort to a court-supervised process may be necessary to resolve such disputes in a timely manner.
- Governments must be ready to impose losses on the shareholders of domestic financial institutions and force the resolution of over-valued assets. Otherwise, partially restructured companies may end up in a "zombie" state with uncompetitive cost structures, capital tied up in loss-making or low-return assets, and unable to obtain financing. Regulatory forbearance, especially on loss recognition, may discourage follow on asset sales and other operational restructuring transactions.
- Barring some overriding public policy purpose, all significant tax, legal, and regulatory impediments to corporate restructuring must be eliminated. Impediments may include tax treatment of debt restructuring; tax treatment of mergers, acquisitions, spinoffs, and other corporate reorganizations, excessive transfer taxes; and protections for public shareholders. Valid protections for public shareholders may necessitate a court-based approach to effect timely equity restructuring.
- Some central body should be responsible for driving financial sector restructuring and making adequate corporate restructuring a condition for bank recapitalization. The country's ministry of finance should normally play a leading role. To avoid conflicts of interest between minimizing restructuring/recapitalization costs and safeguarding the nation's financial system, the financial

supervisor should normally focus on financial sector regulation/supervision and keep out of direct involvement in corporate/financial sector restructuring.

- There must be sufficient implementation capacity to conduct due diligence, structure and negotiate corporate workouts, project the capital adequacy of banks and nonbank financial institutions, conclude corporate asset sales, structure and negotiate public and private recapitalizations of financial institutions, and manage converted corporate equity. The demands for professional services and the costs in a systemic crisis are enormous.
- Crisis efforts to resolve immediate corporate/financial sector distress should be supplemented with other measures to promote corporate/financial sector reform. Key measures include improvements in financial regulation/supervision, improved financial disclosure, stronger corporate governance, and effective competition policy.

Project design/implementation

- In a complex project involving multiple components and multiple implementing agencies, consistent broad-based Government support for all aspects of crisis response and long-term reform is needed in order to make consistent progress toward the completion of project goals.
- If a TA project coincides with an adjustment lending program, there should be effective linkages between all components of the TA project and adjustment lending.
- In a complex TA project, adequate funding and consistent staffing is essential for effective supervision
- It can be difficult to assemble an advisory consortium with the requisite skills in corporate finance, accounting/audit, investment banking, and law. As additional companies are added to an advisory consortium, it can become much more difficult to reach consensus on appropriate courses of action. Thus, it is useful to keep a consortium's organization as simple as possible; indeed, the ideal solution is to retain a firm that combines all of the needed skills. Companies attuned to success fee-based compensation may also find it more difficult to adjust to this type of project; hence, it probably makes sense for advisory consortia to be run by firms whose fees are normally time-based. Finally, it is important to define potential conflicts of interest at the start of the project and ensure that consultants involved in the project avoid any real or perceived conflicts.
- Procurement rules and procedures should be compatible with the urgency of a systemic corporate/financial sector crisis and the technical sophistication needed in a country at Korea's level of development. For this Project, the acceleration of procurement procedures and waivers to consultant fee ceilings, under the Bank's procurement rules, took extraordinary effort by Bank and Implementing Agency staff at a time when a focus on technical issues of corporate/financial sector crisis abatement should have had the highest priority. Complex procurement rules that delay urgently needed financial advisors may degrade the effectiveness and value of similar projects in the future.

9. Partner Comments

(a) Borrower/implementing agency

The Borrower and Implementing Agencies regarded the Bank's performance on lending and supervision as satisfactory overall. Some components were rated higher. The Borrower and Implementing Agencies cited the following as key lessons from the Project:

- The value of outside international best-practice experience in addressing corporate and financial sector distress;
- The need for expeditious procurement procedures in a crisis situation;
- The importance of reaching a consensus within/among advisory groups, financial institution clients, and distressed companies on restructuring requirements;
- The importance of reaching consensus on supporting legal/regulatory reforms among government officials, private sector experts, and foreign experts; and

- The importance of legislative reform and institutional capacity-building to support long-term recovery from a crisis and ongoing reforms to avoid a future crisis.

A complete summary of the Borrower's final evaluation report is attached to this ICR and more detailed comments from the Borrower and Implementing Agencies are available in Project files.

(b) Cofinanciers
Not applicable

(c) Other partners (NGOs/private sector).
Not applicable

10. Additional Information

Not used

Annex 1. Key Performance Indicators/Log Frame Matrix

Outcome / Impact Indicators:

Indicator/Matrix	Projected in last PSR[1]	Actual/Latest Estimate
Adequate quality and timeliness of action plans, and largely consistent implementation.		100% by June 1999
Commercial banks meeting BIS capital adequacy, or being under external supervision or closed, debt-equity ratio of large-scale, non-financial chaebol corporations substantially reduced		87 5% by December 1999 (1)
Role of SROs (KICPA, securities markets) strengthened, FSC/lead banks actively seeking foreign capital in working out banks/debtors; expanded mandated disclosure to minority shareholders		100% by July 2001 (2)

(1) Commercial banks either capital-adequate or intervened. Median corporate debt/equity <200% by end-1999, but one-quarter of companies still over-leveraged.
(2) Steady progress on all items; business law reform covering minority shareholder protections and enhanced corporate boards enacted July 2001.

Output Indicators:

Indicator/Matrix	Projected in last PSR	Actual/Latest Estimate
Revised, detailed action plans; monitoring systems established, advisors integrated into "war room" operational activities		100% by June 1999
Large scale commercial banking sector undergoing substantial restructuring At least 16 inter-linked business groups worked out with substantial assistance of project-funded advisors		100% by December 1999 (1)
Consultancies utilized to the extent foreseen under the project and largely staffed with experts with extensive international experience		100% by December 1999 (1)

[1] End of project
(1) Following initial bank mergers in 1998, additional banks take remedial actions and/or are merged and/or recapitalized. 15 chaebol affiliate workouts negotiated by mid-1999 and workout of Daewoo affiliates basically agreed by end-1999.

Annex 2. Project Costs and Financing

Project Cost by Component (in US$ million equivalent)

Project Cost By Component	Appraisal Estimate US$ million	Actual/Latest Estimate US$ million	Percentage of Appraisal
Financial Sector Supervision & Crisis Management	7.30	5 75	79
Securities Market Development	1.44	0 49	34
Debt Management Improvement	2.00	0.30	15
Corporate Restructuring	30.50	17.79	58
Corporate Legal/Regulatory Reform	1.50	1 38	92
Competition Policy	0.42	0.32	76
Project Implementation Support	0.20	0.01	5
Total Baseline Cost	43.36	26 04	
Physical Contingencies	0.60	0.00	0
Price Contingencies	4.04	0.00	0
Total Project Costs	48.00	26.04	
Total Financing Required	48.00	26.04	

Amounts shown are project costs financed, as estimated at appraisal and actual disbursements.

Project Costs by Procurement Arrangements (Actual/Latest Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method ICB	NCB	Other	N.B.F.	Total Cost
1. Works	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
2. Goods	0.00 (0.00)	0.00 (0.00)	0.00 (0 00)	0.00 (0.00)	0 00 (0.00)
3. Services	0.00 (0.00)	0.00 (0.00)	38.88 (24.64)	0 00 (0.00)	38 88 (24.64)
4. Miscellaneous	0 00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0 00)	0.00 (0.00)
5. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0 00 (0.00)
6. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0 00 (0.00)	0.00 (0.00)
Total	0.00 (0.00)	0.00 (0.00)	38.88 (24.64)	0.00 (0.00)	38.88 (24 64)

[1/] Figures in parenthesis are the amounts to be financed by the Bank Loan. All costs include contingencies.

[2/] Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

Annex 3. Economic Costs and Benefits

Not applicable

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating	
Month/Year	Count	Specialty	Implementation Progress	Development Objective
Identification/Preparation				
02/06/1998	9	PSD Advisor (1), PSD Spec (5); Financial Spec (3);		
03/27/1998	1	PSD Advisor (1)		
Appraisal/Negotiation				
06/24/1998	8	Team Leader (1), PSD Spec. (2), Legal (2), Financial Spec. (3)		
06/26/1998	4	Task Manager (1); Legal (1); Financial Spec.(1); Lead Economist (1)		
Supervision				
09/27/1998	3	Team Leader (1), PSD Specialist (1), Team Assistant (1)	S	S
02/17/1999	1	Task Team Leader (1)	S	S
01/20/2000	1	TASK TEAM LEADER (1)	S	S
12/20/2000	1	LEAD PSD SPECIALIST (1)	S	S
06/11/2001	1	SR. PSD SPECIALIST (1)	S	S
ICR				
10/02/2002	1	TASK MANAGER (1)		

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US$ ('000)
Identification/Preparation	Not available	/a
Appraisal/Negotiation	Not available	249.7 /a
Supervision	Not available	757.3 /b
ICR	Not available	/b
Total	Not available	1,007 0

/a Total amount includes Identification through Negotiation.
/b Total amount includes Supervision through ICR.

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	H	SU	M	N	NA
☐ *Macro policies*	○	○	○	○	●
☐ *Sector Policies*	○	●	○	○	○
☐ *Physical*	○	○	○	○	●
☐ *Financial*	○	○	○	○	●
☐ *Institutional Development*	●	○	○	○	○
☐ *Environmental*	○	○	○	○	●
Social					
☐ *Poverty Reduction*	○	○	○	○	●
☐ *Gender*	○	○	○	○	●
☐ *Other (Please specify)*	○	○	○	○	●
☐ *Private sector development*	○	○	●	○	○
☐ *Public sector management*	○	●	○	○	○
☐ *Other (Please specify)*	○	○	○	○	○

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satısfactory, U=Unsatisfactory, HU=Hıghly Unsatısfactory)

6 1 Bank performance	*Rating*
☐ *Lendıng*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Supervısıon*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Overall*	○ *HS* ● *S* ○ *U* ○ *HU*

6 2 Borrower performance	*Rating*
☐ *Preparatıon*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Government implementatıon performance*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Implementatıon agency performance*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Overall*	○ *HS* ● *S* ○ *U* ○ *HU*

Annex 7. List of Supporting Documents

1 MOFE Public Finance Division, "Borrower's Final Evaluation Report"
2. FSS International Organization Team, "The Final Evaluation Report of the Supervisory Strengthening Project"
3. MOFE Securities Policy Division, "Final Evaluation Report: Securities Market Regulations, Infrastructure, and Industry"
4. FSS Organization and Budgeting Team, "The Financial Supervisory Service Establishment Project"
5 MOFE Treasury Division, "Debt Management Improvements: Final Evaluation"
6. MOFE Treasury Division, "Government Bond Market Development: Final Evaluation"
7. FSC Market Monitoring Division, "Corporate Restructuring: Assessment"
8. KFTC International Affairs Division, "KFTC Competition Policy Assessment"
9. FSC Bank Supervision Division, " Financial Sector Crisis Management Capability Assessment"
10. MOJ Office of Legal Counsel, "Insolvency and Corporate Governance Assessment"
11. KICPA Research Department, "Accounting and Audit Reform Assessment"

Additional Annex 8. Summary of Borrower's Final Evaluation Report

Korea: Financial and Corporate Restructuring Assistance Project: Borrower's Final Evaluation Report

This Final Evaluation Report by the Ministry of Finance and Economy (MOFE) of the Financial and Corporate Restructuring Assistance Project reviews and comments on the following Project components: (i) Financial Supervisory Service Establishment; (ii) Supervisory Strengthening; (iii) Financial Sector Crisis Management; (iv) Corporate Restructuring; (v) Securities Market Regulations, Infrastructure, and Industry; (vi) Government Bond Market Development; (vii) Accounting Reform; (viii) Debt Management Improvement; (ix) Insolvency Reform; (x) Corporate Governance Reform; and (xi) Competition Policy. All components are considered Satisfactory or better. The Financial Sector Crisis Management component and the Competition Policy component are deemed Highly Satisfactory.

Key lessons from this project include the following:

- The value of outside international best-practice experience in addressing corporate and financial sector distress;
- The need for expeditious procurement procedures in a crisis situation;
- The importance of reaching consensus on restructuring requirements, within advisory groups, with financial institution clients, and with distressed companies;
- The importance of reaching consensus on supporting legal/regulatory reforms among government officials, private sector experts, and foreign experts; and
- The importance of legislative reform and institutional capacity-building to support long-term recovery from a crisis and ongoing reforms to avoid a future crisis.

The **Financial Supervisory Service Establishment component** aimed at consolidating four pre-existing regulatory bodies into the Financial Supervisory Service (FSS), a newly integrated financial supervisory authority in Korea, and improving Korea's financial sector supervision capacity. This component covered (1) implementation of a new organizational structure (including information sharing process, budgeting process, etc.) for the FSS, and (2) building an effective human resources system (e g., performance evaluation, career development). The FSS was structured primarily around the core processes of authorization, policy, examination, and enforcement so as to enable it to keep up with the blurring of the traditional boundaries among financial services, and, secondarily, by the type of business entities the FSS was to supervise, i.e., banks, securities firms, insurance companies, and non-bank financial service providers. The human resource process was also significantly revamped to ensure that the FSS was staffed by professionals. This included (1) career development planning, (2) performance-based evaluation, compensation, and promotion, and (3) realignment of staff grades and positions consistently and fairly throughout the entire organizational structure.

Consultant recommendations were mostly accepted. Recommendations for structuring FSS by business area and function into 36 departments and 6 offices were accepted. All HR recommendations on staffing, personnel policy, rank adjustment, evaluation, compensation, career path, recruiting, and budgeting were accepted.

Because effective supervision of financial institutions is essential, this component As such, the Project aimed at creating a high-performing supervisory organization in line with international standards capable of improving the financial soundness of financial institutions and companies and lowering the likelihood of systematic failures in the financial market.

It has made a significant contribution to creating an efficient and effective financial supervisory system in Korea by successfully integrating four previously separate supervisory bodies. Transparent execution of financial supervision—e.g., issuance of licenses for financial institutions—was accomplished through operational independence from the government.

The consolidated FSS has produced the following benefits: (i) consumers have stronger and more competitive financial institutions from which to choose financial services and receive greater protection for their assets as a result of successful financial and corporate restructuring; (ii) financial institutions are subject to better-coordinated and more efficient supervision and generally an improved business environment, with less political influence; and (iii) the government now has access to much more reliable and timely information. This component deserves much credit for successful consolidation of the four pre-existing supervisory bodies and for improved soundness and stability of Korea's financial markets.

The **Supervisory Strengthening component** was intended to (1) establish prudential regulations and supervisory practices that would further enhance the supervisory procedures of the integrated FSS; (2) bring them in line with international best practices; and (3) improve financial surveillance and examination policy procedures.

The project proceeded in two stages. First, the consultant analyzed and evaluated all FSS supervisory operations for each of the four financial sectors: banking, non-banking, securities, and insurance. Second, based on first stage results, the consultant made detailed proposals to enhance core FSS supervisory functions (e.g., off-site surveillance, on-site examinations, risk-based supervision, and supervision of electronic transactions). A detailed action plan based on the consulting results and review comments of related staff members was established in December 2000. Items within the action plan have either been already performed or are currently being executed.

This component will foster a long-term course of actions to detect problems within the overall supervision process. The component is expected to boost the supervision process through a detailed development scheme, focusing on major supervision functions, and to produce a means to implement it The Project also produced market-oriented processes whenever possible. These methods allow for gathering the opinions of the supervised financial institutions and other related institutions and focusing on how actual supervision activity is accepted by market participants. This component will also improve the international reputation of the FSS through the support by the World Bank and consultations with outside experts.

The efforts by the World Bank were quite helpful and contributed to the successful completion of the project. World Bank support was of primary importance during consultant selection, project planning and implementation; and supervision. The component team within the FSS also did its utmost to coordinate with the World Bank and maximize benefits from this technical assistance Involvement by FSS professionals with long-term experience within each sector contributed to the success of the project.

The **Financial Sector Crisis Management component** was designed for the purposes of facilitating, and providing support for, the restructuring of Korean financial institutions without adequate restructuring experiences and knowledge and the crisis management by employment of advisory groups The objectives of this component were appropriate. One consulting firm conducted comprehensive evaluations of management strategies submitted by 14 banks, while another consultant reviewed financial projections by 18 banks. This approach was in line with the purposes of strengthening the financial institutions' risk management and restructuring capabilities.

This component has been successfully carried out in many respects, because there were sufficient consultations on the employment of advisory groups between the World Bank and the Korean Government. Employing internationally known advisory groups helped to improve transparency of the financial sector restructuring in Korea and its external credibility. "Best Practice Guidelines" on crisis management for the financial sector made available by the advisory groups allowed financial institutions to effectively carry out benchmarking activities, as a consequence of which the financial sector restructuring was a significant success. Given the foregoing, the financial sector crisis management by outside advisory groups has been highly satisfactory.

This component was carried out in close consultations with the World Bank. Under consultations with the World Bank, the Financial Supervisory Commission (FSC) had developed Guidelines for Strengthening The Financial Sector Crisis Management Capabilities, pursuant to which outside advisory groups were employed. By moderating differing issues and opinions between and among the World Bank, financial institutions and the outside advisory groups, thereby contributing to the facilitation and implementation of the Project, the FSC carried out its central role for the component satisfactorily.

Total budget estimated by the World Bank was in line with international practices in view of the Project duration, hourly wages for members of advisory groups, and living expenses involved. Having Koreans participate in the outside advisory groups also helped to resolve differences both linguistic and cultural between the advisory groups and the FSC, thereby facilitating the implementation of the Project. In the early phase of the Project particularly, the Bank deployed its staff within the Commission to ensure the successful selection of the outside advisory groups by supervising placement of advertisements, remittance of letters of invitation, and requests for proposal, among others. Where conflicts of interest and opinions may arise between the outside advisory groups and the Government, the Bank intermediated and, further, identified to resolve issues and receive recommendations relating to the advisory activities of the outside advisory groups by having its personnel visit with the Commission, when and as necessary. We are highly satisfied with the high interest and unyielding support the Bank extended.

The FSC has learned that services provided by the outside advisory groups in this context, have helped the Korean Government to develop capabilities to review and manage issues and problems that may arise while carrying out the reform since the crisis. The success of reform depends upon how well trials and errors are minimized, in the context of which we believe that the utilization of the outside advisory groups was a successful strategy.

The **Corporate Restructuring component** was to provide creditor financial institutions with professional advisory service in restructuring of their debtor companies. Accordingly, a consortium of financial experts offered technical consultations to lead banks in restructuring big business groups, including the top five. In this way, the component helped to promote creditor-led, autonomous corporate restructuring. The advisory group constitutes mainly investment bankers and other financial professionals including lawyers, consultants, and accountants. An advisory group was placed in each of five major commercial banks: Woori Bank, Chohung Bank, Korea First Bank, Seoul Bank, and Korea Exchange Bank

Because the World Bank, the Korean government, and creditor financial institutions reached an agreement regarding the issue of hiring advisors, overall implementation of the project was rather smooth But there were some obstacles that delayed the process: i) disagreement between creditor financial institutions and the advisory group regarding such matters as fees, scope of work, confidentiality, and advisors' liability; ii) conflict of interest among groups of advisors that provided consultation to banks or companies that were in competition with their previous clients; iii) delay in consensus building among advisors; iv) delay in execution due to lack of orientation among budget, execution, and legal teams, among others, within the World Bank itself.

By employing internationally renowned financial advisors, corporate restructuring process was done in a transparent manner and gained external credibility. With the help of international advisors, Korea's restructuring endeavors to overcome the foreign exchange crisis in both financial and corporate sectors were widely recognized in the international business community. Considering these positive results, the project is deemed satisfactory. In addition, the project provided inexperienced loan officers in domestic financial institutions with an opportunity to gain knowledge and hands-on experiences about restructuring that were on par with international practice. The advisors assisted financial institutions in such areas as loan evaluation and management, as well as setting up an early warning system for ailing companies. They also conducted frequent seminars and on-site training about restructuring techniques.

The corporate restructuring component satisfactory. Even from the beginning of the project, the World Bank, the government, and creditor financial institutions, as well as advisors agreed on the importance of corporate restructuring and, accordingly, participated in the project with high enthusiasm and motivation. The project was carried out in close consultation with the WB even from the preparation stage. On May 15, 1998, through consultation with the WB, "Policy Directions of Corporate Restructuring" was drafted, based on which a team of advisors was convened. The FSC laid out thorough preparation of the project in such relevant areas as budgeting, execution, and management. To carry out these demanding tasks, special task force teams were formed. From the initial stage of the project, the FSC implemented the hiring of advisors based on its thorough knowledge of the WB's procurement regulation. The FSC consulted the WB for its advice and no objection for salient matters related to selection of advisors. Subsequently, the FSC consistently monitored the progress of advisors' work mainly to identify and resolve obstacles and problems in a prompt manner. The FSC performed its leading role in a satisfactory manner for the successful implementation of the project through promptly mediating different views among the WB, the MOFE, creditors, and advisors.

The World Bank's basic notion of seeking financial professionals' advice for more effective corporate restructuring was in line with the government's principal policy directions. By consulting internationally established financial experts, Korea's reform efforts could gain wide scope of international recognition. Domestic financial institutions' market confidence and corporate transparency were restored, which helped to increase foreign capital inducement. The World Bank's total budget for the project deemed in par with international practice, considering its total duration, and advisors' fees and living expenses The WB's idea of including Korean work force in the advisors' team was also successful for effective negotiations with creditors as this helped overcome linguistic and cultural barriers.

From the initial preparation to the final stage, the WB extended active support and advice for successful implementation. It was especially helpful to have the WB staff to work at the FSC and assist the FSC officers in their interaction with foreign counterparts. In cases of conflicts between advisors and creditors, the WB assumed the role of mediator. Further, officers from the WB head office were sent to the FSC on a periodic basis to identify and resolve difficulties and problems that advisors were experiencing in their performance. However, there were some delays in getting an approval, or "no objection" from the WB for hiring new advisors. This made it difficult to promptly allocate advisory service as it was needed. Further, during the wrap up process, because of the WB's internal reorganization and transfers of personnel, steady work assistance was often interrupted. The project helped raise the awareness of the importance of having foreign experts to ensure transparent implementation of corporate restructuring. Also, the quality of assistance and level of interest by the WB toward thorough preparation and consistent advisory activities was overall satisfactory.

Main lessons included the need for awareness of international practice; more expeditious procurement in a crisis situation; importance of timely consensus within advisory groups, and overcoming concerns about confidentiality.

Securities Market Regulations, Infrastructure, and Industry component focused on development of the securities market. Before the foreign currency crisis in 1997, short-term borrowing from banks was the major financial source for companies. As a result, the financial status of companies was extremely vulnerable to outside shock. To reduce this kind of risk, the government needed to induce companies to finance more from securities market. Therefore, the development of sound securities market was considered to be one of the most important tasks for recovery from the foreign currency crisis and for the future development of the Korean economy. To prepare a specific plan, the Korean government with support from outside consultants undertook two research projects: one on strengthening the Micro Architecture of the Capital Market and Self-Regulatory Functions; and the other on Strengthening Regulation on the Soundness of Financial Institutions and Internal-Control System.

Definition of project objectives was Highly Satisfactory. Project design and implementation of the project was Satisfactory. The study project has provided credible and useful information for the Korean government by comparing the domestic market and foreign advanced markets as well as analyzing foreign advanced markets. The study project facilitated the Korean government in preparing policy alternatives.

The government asked the agency to improve their research report in March 2001 because the report was unsatisfactory. The project was then prolonged to December 2001. The government has made continual improvements in local securities markets: e.g., improved corporate governance; facilitation of ESOPs; auditor independence; and sanctions for unfair dealings.

The implementing agencies were composed of specialists in relevant fields. They were able to efficiently analyze the current status of Korean securities market and provide a good advice and policy proposals. They also provided reliable and useful views on the difference between the Korean securities market and foreign advanced markets. The comparison with foreign advanced market highlighted the weakness of the Korean securities market. The implementing agencies also provided a theoretic basis for policy alternatives by explaining the background, objectives, effects, and principles of each policy

The World Bank played a very important role in determining the fundamental project identification and cooperated closely with the Korean government in preparing the project. The World Bank and Korean government exchanged their opinions on selecting concrete subjects of research and the agency that would carry out the project. It promoted the efficiency of the project. As a supervisor, the World Bank carried out its role very well. It checked the contents of the expenditure and also examined the research report.

One lesson is the importance of exchanging opinions and communication among specialists of the private sector, government, and foreign institutions in preparing appropriate policies. For example, the proposals made by agencies composed of specialists of the private sector, most of whom were scholars, were sometimes too abstract and insufficiently practical.

Government Bond Market Development component. The Korean government bond market was extremely underdeveloped at the time of Korean foreign exchange crisis of 1997, although there was a tremendous need for raising funds to overcome the crisis. Raising the necessary money without raising taxes required the large-scale issuance of government bonds. Unfortunately, Korean government bonds were traded in such small amounts as to be unattractive to the investors due to a lack of liquidity. Under such circumstances opting to expand the Korean bond market as suggested by the World Bank (WB) was a necessary adventure. In this regard, the objective of the project was satisfactory.

The project began with two WB seminars for the Korean government. One had to do with the study of government bond issuance management strategies and the other dealt with establishing a primary dealer system in Korea. Armed with the results of these studies the Korean government has undertaken significant reforms of the government bond issuance system. The result of these developmental steps and progressive participation of market players, has been the transformation of Korean government bonds into the most attractive domestic financial market investment.

In all phases, including the planning, follow-up, and conclusion of this project, the cooperation and assistance of WB staff has been highly satisfactory. The advice given was timely, accurate and relevant. There is nothing to be desired so far as cooperation with the WB is concerned.

The **Accounting Reform component** was designed to develop an enhanced continuing professional education program (CPE) for accountants and to enhance professional ethics. A consultant reviewed and made recommendations on CPE. Component objectives and design were satisfactory, but implementation has lagged. The regulation on CPE was formulated in October 2002. Another consultant reviewed and made recommendations on ethical standards. Again, component objectives and design were satisfactory but implementation has lagged, as the Code of Ethics will be formulated only by end-2002. Implementation by the Korea Institute of Certified Public Accountants is deemed satisfactory. In addition, the Ministry of Finance and Economy also rationalized the institutional framework for standard setting and professional oversight; extended external audit requirements to additional entities; and supported the introduction of audit committees into boards of directors.

Debt Management Improvement component. Because the Korean government debt has ballooned since the economic crisis, it has become increasingly urgent that more effective debt management policies be implemented. The purpose of this project was to devise and implement an efficient debt management strategy. In this sense the objective was clear, relevant, timely, and important for improving the fiscal soundness of Korean government.

Domestic specialists and international consultants provided the expertise necessary for developing and operating the Sovereign Asset Liability Management System (SALMS). SALMS was designed to improve the flow of such sovereign debt management information to government decision-makers as: debt profile analyses; currency and interest rate risk assessments; and information systems for front, middle, and back-office functions of public debt management The system hardware was installed at the Government Debt Management Team (GDMT), which is a task force in MOFE Treasury Bureau. The GDMT-managed system has made it possible to systematically analyze a mountain of government debt-related data, and assess the risks associated with the current Korean government debt structure. This allows the Korean government to select the best strategy for minimizing medium to long-term costs and risks. GDMT has also been advising the MOFE director-general in charge of debt management, so as to facilitate appropriate decisions regarding the amount of debt issuance and repayment schedules. In this sense, the achievement of the objective has been satisfactory.

The **Insolvency and Corporate Governance components** were designed to improve corporate governing and corporate insolvency law and to send judges and public prosecutors on overseas study. As a result of the corporate governance consulting project, 3 public prosecutors studied at Stanford University in the U.S. and a domestic workshop was held. Based on the consultants report, a reform of Korea's business law was proposed to the National Assembly in December 2000 and enacted in July 2001. It covered minority shareholder protections and enhancements to boards of directors. As a result of the insolvency law project, 4 judges and 5 public prosecutors conducted an overseas study tour and a domestic workshop was held. Results of the consulting report and workshop have been provided to a Ministry of Justice insolvency reform working group which is preparing reform legislation for the National Assembly.

The project has been contributed much to the corporate governance and corporate insolvency law by studying these of USA, Germany, and Japan, and diagnosis of the problem of Korean insolvency law by experts of law such as law firms interior and exterior of Korea. The project for reforming corporate governance and corporate insolvency law is generally satisfactory.

The corporate governance and insolvency reform components corresponded with Korea government's effort to overcome foreign exchange crisis. By receiving advice and consultations from the world-renowned law firms and lawyers, corporate restructuring effort by Korea government was backed and supported by lawful and regulated ways which resulted in improvement of corporate and nation's competitiveness The Working Group for Legislation System Reform was established with law professors, prosecutors, and judges under MOJ which oversaw a smooth and consistent progress of the project such as checking on the status and progress of advisory consulting project, and plan and execution of overseas training.

From the beginning of the project, World Bank gave much advice and support. Especially, a World Bank representative regularly visited MOJ, and helped on the legislation for the improvement of corporate governance and corporate insolvency law by checking on the legislation progress and giving examples on other nations' legislations. The World Bank's interest and support for MOJ is generally satisfactory.

The **Competition Policy component** focused on three areas: sharing information and know-how on OECD best practice, including advice on laws and guidelines from international experts; training seminars and workshops; and overseas internship programs for KFTC staff. OECD best practice and expert advice in competition policy were very useful in reform of Korea's laws and guidelines At the same time, the workshops and overseas internships played a substantial role in strengthening staff know-how and capacity. Performance can be rated as highly satisfactory.

The project was successfully implemented by KFTC for 24 months from September 1998 to September 2000. KFTC undertook the project with the aim of strengthening competition policy in Korea via consultation with the IBRD. Firstly, KFTC entrusted external expert institutions with 7 projects to collect information on institutions and implementation procedures of competition authorities in advanced countries and OECD best practice. Those projects also included research on ways to improve and reform the content and enforcement of Korean competition law. Secondly, KFTC invited members of competition authorities and academic experts from the U.S. to hold 2 workshops on competition policy for the KFTC staff. Thirdly, by organizing 2 long-term and 3 short-term overseas internship programs, the KFTC enabled its staff to attain the know-how and implementation experience of competition authority officials from the U.S , EU and Australia.

Assistance from this component aided the KFTC in its efforts to eliminate most domestic cross-debt guarantees; to investigate and punish improper intra-group transactions, to abolish 20 cartels under 1999 legislation; and to improve standards and procedures for reviews of cartels and merger and acquisition (M&A) transactions. These efforts raised KFTC's status both domestically and internationally. For example, KFTC was named vice chair of the OECD Competition Committee and, through its KP (Knowledge Partnership) with the World Bank and hosting of the Global Competition Policy Workshop, KFTC is actively seeking to disseminate its know-how and experience of competition policy implementation to developing and transition economies around the world. Performance in this area can be rated as highly satisfactory.

The World Bank's inclusion of the competition policy component in Korea's financial and corporate restructuring project design was desirable and effective. The vulnerability of the financial and industrial sector to the financial crisis was because Korea lacked a system which functioned properly to enhance corporate efficiency through market competition. KFTC consulted frequently with Bank staff, who were eager to provide advice and monitor the project and helped to complete it with complete success. The Bank's performance was highly satisfactory.

Key lessons included the importance of legislative reform and capacity building to ensure lasting results. In this regard, the World Bank's approach was appropriate. Reform should reflect the characteristics of the country in question. It is also desirable to encourage more training opportunities for high ranking decision makers. The effective implementation of competition policy depends as much on building a pro-competition framework that encompasses all aspects of economic policy as it does on the capacity of a competition authority.

IMAGING

Report No.: 25214
Type: ICR